**BEFORE THE**

**STATE OF CONNECTICUT**

**JOINT ENERGY AND TECHNOLOGY COMMITTEE**

**March 1, 2011**

**Testimony of Daniel Allegretti**

**For**

**Constellation Energy**

**On**

**Raised Bill No. 5699 (LCO 1405)**

Senator Fonfara, Representative Nardello, members of the Committee, good afternoon and thank you for the opportunity to be here today and to testify. My name is Daniel Allegretti and I am a Vice President for energy policy with Constellation Energy. I have had the privilege and honor to appear before this committee on numerous occasions in the past and am pleased to be here again today. For the benefit of those who are new to the committee, let me mention that Constellation Energy is a "Fortune-500" energy company based in Baltimore, Maryland. Here in Connecticut, we are one of the leading providers of electricity as both a supplier of standard service to Connecticut's distribution companies and as a direct retail seller of electricity to Connecticut businesses. Our businesses also include the provision of energy efficiency, demand response services and a growing business developing and operating solar generation facilities.

Constellation Energy opposes Raised Bill 5699. Creating jobs and growing the Connecticut economy requires a stable and hospitable climate for business, one that will attract new capital and investment to Connecticut over other competing states. Creating new and unique taxes on businesses, any businesses, sends the wrong message. Power plants located in Connecticut are essentially manufacturing facilities that sell their output both within Connecticut and into the broader interstate wholesale energy market. Putting a new tax on these producers makes their "product," the electricity they produce, more expensive and competitively disadvantaged in the broader market.

For companies such as Constellation Energy who are looking for opportunities to make investments in solar power, energy efficiency and retail electricity sales, the sudden imposition of a new tax on the production of electricity makes Connecticut a much less attractive place to deploy our time, effort and capital building these businesses. To be able to take investment risks, a company must also be in a position to capture returns. Confiscation of those returns in Connecticut through a tax on energy production means that states without such a tax can and do offer a more attractive place to make these investments. Indeed, the message to business goes well beyond the electricity sector and has the potential to scare other forms of manufacturing and industry away from investing in Connecticut in favor of more business-friendly states.

Apart from the chilling effect it has on business investment, increasing the cost of Connecticut-produced electricity at the wholesale level means higher retail electricity prices for Connecticut customers. As a supplier of power to many Connecticut customers, Constellation Energy must purchase electricity in the wholesale market at a price that reflects the cost of power delivered to Connecticut. That price reflects competition between both in-state and out-of-state generators. In general, out-of-state generators will face a higher cost (in the form of electrical line losses and transmission congestion expenses) to get their power delivered to Connecticut than will in-state producers. Layering the proposed additional tax upon the cost of in-state supply, therefore, drives the cost up in this wholesale market. That means Constellation Energy's cost of supply will go up and so will its prices to retail customers and its wholesale offers to UI and CL&P for Standard Service.

It appears that the bill's authors have attempted to address the adverse effect on increased costs resulting from this tax by allocating the tax revenues toward rate relief. Unfortunately, the rate relief described will not be adequate to offset the increased costs because it fails to account for the fact that increased production costs will result in reduced dispatch of Connecticut generation into the market. In addition, our experience with the designation of charges on electricity bills for specific public purposes is rife with the practice of "raiding" these revenues to fulfill general state revenue needs. Such indeed, has been the experience in Connecticut with the Conservation and Load Management fund.

We have heard repeatedly both from this Committee and from the administration that lowering the cost of electricity and increasing investment in renewable resources, conservation and clean energy technology are the primary energy policies you want to pursue. Imposing a tax on the production of electricity within Connecticut runs completely counter to these laudable goals. For that reason, Constellation Energy strongly recommends against passage of Raised Bill 5699.